UBS Asset Management
All data as at 31 May 2021

UBS Clarion Global Property Securities Fund

May 2021

Fund description

The Fund is an actively managed fund investing in a portfolio of 60–90 global real estate equity securities across a range of geographic and economic sectors.

Investment strategy

The Fund uses a multi-step investment process for constructing the Fund's investment portfolio that combines top-down region and sector allocation with bottom-up individual stock selection.
Top-down sector and regional allocation is determined through a systematic evaluation of listed and direct property market trends and conditions. Bottom-up stock selection is driven by proprietary analytical techniques to conduct fundamental company analysis, which provides a framework for security selection through an analysis of individual securities independently and relative to each other.

Investment return objective

The Fund aims to outperform (after management costs) the FTSE EPRA/NAREIT Developed Rental Net Return Index (AUD Hedged) over rolling three year periods.

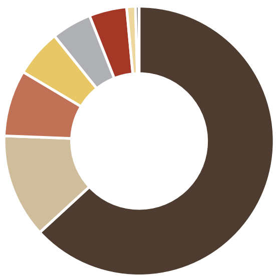
Top 10 positions by stock

Name	Country
Prologis	United States
Simon Property Group.	United States
Extra Space Storage.	United States
CubeSmart	United States
Camden Property Trust	United States
American Tower Corporation	United States
Duke Realty Corporation	United States
Vonovia SE	Germany
Ventas	United States
MGM Growth Properties	United States

Fund information

Inception date	31 July 2006
Fund size	$419.1 m
Management fee	0.90% pa
Minimum initial investment	$10,000 (via mFund and online application $5,000)
Distributions	Semi-annually
Typical number of holdings	60 to 90
Buy/sell spread	+/- 0.25%
Currency management	Hedged
APIR code	HML0016AU
mFund code	UAM10

Investment portfolio (%)



North America	63.14
Europe ex UK	12.47
Japan	7.95
Asia Pacific ex Japan	5.66
United Kingdom	4.80
Australia & NZ	4.50
Cash	1.05
Ireland	0.42

Note: Data is inclusive of pending transactions.

Investment performance

Fund	1 month %	3 months %	1 year %	3 years % pa	5 years % pa	Since inception* % pa
Total return	1.36	13.49	33.18	9.45	6.32	6.10
Benchmark**	1.26	11.93	31.07	5.60	4.61	5.49
Added Value	**0.10**	**1.56**	**2.11**	**3.85**	**1.71**	**0.61**

*Inception date: 31 July 2006. **With effect 1 April 2012, the Responsible Entity changed the benchmark from the UBS Global Real Estate Investors ex Australia Net Total Return Index (AUD Hedged) to UBS Global Real Estate Investors Net Return Index (AUD Hedged). With effect 2 March 2015, the Responsible Entity changed the benchmark to FTSE EPRA/NAREIT Developed Rental Net Return Index (AUD Hedged). Performance figures are net of ongoing fees and expenses. The performance figures quoted are historical, calculated using end of month redemption prices, and do not allow for the effects of income tax or inflation. Total returns assume the reinvestment of all distributions. Performance can be volatile and future returns can vary from past returns.

Portfolio review

The portfolio outperformed the benchmark for the month building on the strong relative performance in the first four months of 2021. In the U.S., we outperformed, driven by positioning in the mall, healthcare, and data center sectors. In the mall sector, we benefited from an overweight to outperforming Simon Property Group ("SPG"). SPG was up +5.5% for the month, driven by a strong first quarter earnings report where SPG beat 1Q consensus estimates and raised 2021 full-year guidance. Our underweight of the underperforming healthcare and data center sectors also contributed to our relative performance. We continue to be underweight the healthcare sector because these stocks are expensive relative to their tepid earnings growth outlook. We also remain underweight the data center sector as these stocks are expensive relative to our growth outlook.

In the Asia-Pacific region, our relative performance trailed modestly for the month. Home Consortium took a relative breather after strong performance in prior months. For the J-REITs, an overweight to outperforming, office company Orix J-REIT while not owning several large-cap, underperforming J-REITs helped relative performance. In the Asia-Pacific region, positive relative performance was largely driven by our stock selection in Australia with exposure to outperforming Home Consortium (+14%), while avoiding discretionary retail landlord Scentre Group (-3%).

In Europe, we had good absolute performance but our relative performance trailed for the month. Underperformance for May was largely driven by a modest underweight to Deutsche Wohnen, which was up after announcing that it agreed to be acquired by Vonovia in an all-cash offer at an +18% premium to the prior day closing share price. We continue to have conviction around the German residential stocks that we own in the portfolio.

Market review

Real estate stocks were up +1.3% for May. On a year-to-date basis, real estate stocks are up +15.1%, outpacing the MSCI World Equity Index (+11.8%) and the Barclays Global Bond Index (-2.4%). After several years of relative underperformance, real estate stocks are among the best performing asset classes in 2021. The economic recovery is accelerating, driven by the rapid distribution of COVID vaccines, consumers with substantial savings and a desire to spend, businesses eager to hire as well as considerable policy support from governments and central banks. All of these factors are very good news for the economic outlook and real estate landlords, and we believe real estate stocks will be beneficiaries of these trends.

Outlook

Based on our proprietary valuation dashboard, real estate securities valuations are attractive relative to the private real estate, fixed income, and broader stock markets. At May 31, 2021, real estate stocks are trading at an implied unleveraged cash flow yield of 5.5%.

We do not believe rising interest rates will disrupt our positive total return outlook for real estate stocks for three primary reasons: 1) CBRE Global Investors' economic forecast projects that market-based interest rates will rise only moderately through the course of 2021, with no central banks raising interest rates during the year; 2) the historically wide yield spreads between real estate stocks and fixed income instruments provide a substantial cushion should interest rates rise above current expectations; and 3) the short-term positive correlation between real estate stocks and interest rates has broken down during this COVID pandemic. In 2020, real estate stocks were negative while interest rates fell. Real estate stocks are acting as an "economic re-opening sector," so it is likely that a measured increase in interest rates as an indicator of economic recovery will be a positive for real estate stock performance.

In the U.S., we are overweight towers, industrial, retail, hotels and storage. In Japan, we prefer industrial and mid-cap office J-REITs that are providing earnings resiliency at a very attractive relative valuation. In Hong Kong, we are overweight diversified companies with a residential bias, non-discretionary retail, and decentralized office. In Australia, we prefer residential, industrial, and a few select diversified companies.

In the U.K., we favour the storage and industrial sectors while in Continental Europe, we own the German residential companies, and we continue to prefer property companies in markets with a positive earnings growth profile, which favours mid to small cap stocks in Germany and the Nordics.

Client Services

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